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AN ADDRESS

BEFORE

The Kansas Live Stock Association
Wichita, Kan.
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I am glad to be with you today. It is always a pleasure to come West. It is good to get away from the environments and daily grind of big cities and enjoy the freedom of life, hospitality and personal contact. It is broadening; it gives one a wider range of vision, a better conception of the fundamental elements of the greatness of this country of ours—a more correct estimate of the relative proportion of things. It is a real and genuine pleasure to mingle with the red blooded, forceful and virile personalities of the people of the West—a section which has produced so much of the biggest and best of our civilization. And my presence here today, I assure you, is an evidence of this feeling and of my appreciation of the privilege and the honor of addressing this important convention. But over and above all feelings personal to myself, I welcome the opportunity to discuss with you frankly some of the phases of a very big subject, in which the great financial institutions of the country are equally with yourselves interested, viz.: the financing of the great cattle industry, which as we all know, is one of the most important elements of the resources and prosperity of the country. The institution which I have the honor to represent, in common with banks and financial institutions in general, fully recognizes the importance of constructive policies which will foster, encourage and build up in all proper and legitimate ways the wholesome and healthy development of this industry, through

the successive stages of breeding, finishing and marketing, and is in sympathy with any methods calculated to give proper and adequate financial support. I think that I can talk to you on this subject from an unbiased point of view, looking at it from all angles, and with an understanding of the subject acquired at first hand, through a residence of over a quarter of a century in the heart of the Southwestern cattle country, and as an officer for a large part of that time of various banking institutions in that section, having their funds employed very considerably and constantly in cattle loans. either directly to their own customers, or by rediscounting for a large number of country banks, indirectly financing the needs of the customers of the latter. Through practical experience I have become familiar with the essential questions entering into the consideration of cattle paper, therefore, not only on the ground, but also in the bigger banks and open money markets of the large financial centers. It is manifestly to your interests, and those of all concerned, that we go to the fundamentals of the subject in candor and frankness, avoiding any speciousness or insincerity; and through that medium, and that alone, and with a broad view of the entire range of the subject, can I hope to say anything that would be helpful or justify the time which you have allotted me on the program.

First, let me impress upon you strongly that there is not any reasonable doubt that all the money or credit that the cattle industry may need for its legitimate requirements—present or prospective—will always be available if the business is on a basis to properly safeguard extensions of credit. It is not at all a question of money, but of methods and of management.

I do not hesitate to say that a good cattle loan is one of the most liquid and desirable investments in

which the funds of a commercial bank can be employed, and on the other hand, there are some cattle loans which I would regard as wholly undesirable. The purpose of this talk is to take a look with you at the facts.

When we come to look at the conditions underlying the welfare of the great agricultural regions of the country, the sum total of our experience has clearly demonstrated that we are going through a period of improvement, economic changes and re-adjustments. The "man with the hoe" is rapidly encroaching on the great cattle ranges. The tendency of the times is more and more toward the production of cattle on farms, and the long horned native denizen of the prairies—the constituent elements of whose anatomy were formerly so conspicuously horns, hide, bones and "cussedness"—is being replaced with constantly improving grades, better beef, better and safer conditions of breeding, development, financing and marketing. Increasing population; the extension of transportation facilities over the cattle country; the advent of the small farmer; the scientific study of methods of diversification and breeding; the increase in the country's wealth and banking facilities; the improvement in quality and the advance in prices—have all combined to create conditions vastly different from those of the long ago. Why, I can remember when for lack of transportation facilities, feed and water, in some remote sections, cattle have been, it is said, actually slaughtered for the sale of their hides, the carcass going to waste. I can remember when an Eastern banker of prominence,—whose views were undoubtedly shared by many others—expressed himself to the effect that he had as soon have a mortgage on a school of fish in the Gulf of Mexico as on a herd of cattle on the Texas Plains. I can remember when rates on

cattle loans were so high that it was often facetiously said that the lender did not care anything at all about getting back the principal if he could only be sure of getting the interest. In those days conditions of the business were oftentimes so precarious that many bankers would not make a cattle loan unless it was secured also by a mortgage on enough land to make the debt good, irrespective of the cattle security. The land, like everything else, has enhanced in value, and has made greater fortunes than the cattle, but as it enhances in value and is more and more taken up for farming, it has more and more gotten to be, as I have said, a condition of smaller herds, higher grades, better prices, enclosed pastures, dependable conditions of feed, water and winter protection, less disease, better quarantine, sanitary and preventive measures, better safeguards, and better foundations of credit all around. Of course some of the big ranges still exist and will continue to exist for a long time to come, but transportation, better breeding, better conditions and better methods have wrought a great change for the better, from a credit point of view, in the conditions underlying loans on range cattle.

Let us take a look over the Government statistics on cattle production between the years of 1867 and 1915. Great fluctuations are shown over this period of time, both in numbers and values.

Milk cows have increased from 8,349,000 in 1867 to 21,262,000 in 1915, the latter figure representing nearly the maximum number for the whole period, having been slightly exceeded only twice—in 1909 and 1910.

Average prices on this class of stock have fluctuated from a minimum of $21.40 to a maximum, in 1915, of $55.33. The price has doubled in 10 years, since

1905, when the average was $27.44, since which time there has been an annual increase in price.

The statistics on all other classes of cattle except milk cows, beginning with 11,731,000 in 1867, showed a gradual and rather uniform increase in numbers until 1892. Up to that time they reached a maximum of 37,651,000. Since that time these figures indicate large fluctuations, up and down, ranging from a minimum of 27,610,000 to a maximum of 51,566,000 in 1907. From that time each year showed a continued decline until in 1914 the number had decreased to 35,855,000. In 1915 the tide turned and for the first time the figures showed an increase, indicating 37,067,000. In the increase of 1915 over 1914 it is interesting to note that Kansas led all other states in the Union, with an increase of 213,000 head, and at the same time the average price in Kansas increased from $36.90 to $42.50 per head. It is a notable fact this increase per head is larger than in any other state in the Union, and very considerably larger than any other state except Texas, which makes almost as good a showing. Kansas showed also an increase of 28,000 in the number of dairy cattle, with an increase in the average value of $6. per head, between 1914 and 1915, and in both these items is near the top of the list.

The average price of beef cattle of all ages has showed an increase annually, in the United States, from $15.15 in 1905, to $33.38 in 1915, and the price has a little more than doubled in the last seven years.

The figures to which I have referred, extending over a period of 50 years, show wide fluctuations in the numbers and prices of beef cattle, a study of which is very interesting.

I attribute the remarkable increase both in numbers and price, in the Kansas cattle production to which

I have referred, to the hearty co-operation and intelligent aid which has been given to the farmers of that state by banks and loan companies operating in that territory; to the progressiveness and advanced standards of the farmers themselves, through which, combined, the state is using her natural resources to the best advantage, and out of this evolving a system which will serve as a model of improved methods.

One of the factors entering into the higher scale of prices is the advance in the value of hides since the beginning of the war, due to the greatly increased demand for leather for shoes, saddlery, equipment, etc., to fill war orders, in connection with increased requirements for expanding domestic business.

Another thing which should be recognized as having a bearing on increased values, is that under our present highly developed system of utilization nothing goes to waste in the manufacture of packing house products, everything being used and turned into products of value. Even the final "squeal of the pig" is not lost but it is said goes to run the whistle. The market for by-products is one of the determining factors in prices.

The farmers of the country are learning to get away from the "one crop" idea, and diversify; to produce food crops on their farms for their families and for their livestock, irrespective of other crops. More and more the breeding of livestock on farms will continue. When crops fail it is the livestock which is a sure reliance.

Within the last year I have traveled extensively over the cattle producing states of the West and Southwest, and have talked to many people engaged in these lines—stockmen, farmers, bankers, commission and cattle loan men, merchants, and people in general,

whom I have either met in traveling or in my office in New York; and I have formed some pretty definite conclusions about the present situation concerning cattle loans. It might be well to look over some of the conditions of an unusual character, having a bearing on the situation at this time.

For the last two years the country as a whole has been blessed with large crops of feed and forage, abundant stock water, and exceptionally good average conditions of all sorts. There had been declining production and increasing consumption for a number of years and after the first shock of the war the indications that this country would soon enter into a period of prosperity and greatly enlarged domestic consumption, and would be called on heavily from abroad to supply the requirements of Europe—forecasting high prices—were a perfectly natural incentive to widespread stocking up, and it was very opportune, at a time when such large quantities of feed and forage were being produced. The demand for stock cattle for breeding purposes; for canners to supply the European armies; for cattle exported on the hoof, and finished beef for domestic and export consumption, have under the natural laws of demand and supply, put up prices very high. During the past year money has been in greater abundance and at average lower rates than ever before in our history. In fact multiplied millions of dollars available for commercial loaning have accumulated to the point where they could not be profitably employed. These extraordinary money conditions have brought about an unprecedented demand for cattle paper, and in many cases from institutions which had not been accustomed to buy it, and with little practical information or discrimination in the purchase of such loans. The fact, that under this

condition of affairs it has been so easy to place cattle paper at low rates, has been a strong temptation to make cattle loans promiscuously and with increasing laxity. Many cattle loan companies are springing up, encouraged by the large margin of profits growing out of the present activity of the business and the low rates at which paper can be sold. As a result of all the conditions mentioned, I find a very general unanimity of opinion among those of long experience and sound judgment, that there are many dangers in the present situation and that it is a time for very conservative policies.

It has been said that as the average price of beef cattle of all ages has more than doubled in the last seven years, it required twice as much money to finance the business. At the present time this is apparently an understatement of the real facts. It seems to be the consensus of opinion of many well informed authorities, that under the influence of the easy conditions which I have described, too many people with little or no financial or other responsibility are being encouraged by the loan of funds representing practically the purchase price, to buy cattle at the present high prices, creating a large volume of credits of an inflated character and very insecure foundations.

It is well known that with the high prices which have prevailed, feeding for the market has not turned out profitably in a very large number of instances, and there has not been the proper parity between the raw and finished product.

It is felt that the multiplication of cattle companies and too much competition for business is making credit too cheap, reducing margins of safety and promoting speculation. Too much speculative buying is forcing

the average of prices up to a point that may be dangerous.

In respect to feeder loans, where the borrower has sufficient feed to put the cattle on full feed for a period of four to six months, the practice, as you know, is pretty general, to lend in many cases practically the purchase price of the cattle, regarding the feed as the margin, as a steer on full feed will gain from 1½ to 2½ pounds a day and should be finished for market on an average within four months. A thousand pound steer, let us say, would weigh around 1,200 pounds when ready for market, the difference in weight furnishing a very respectable margin. But if the borrower has no other margin in the transaction he should be able to make a statement indicating ample outside responsibility to fully protect all parties concerned, for on the liability side he must assume

1—The expense of feeding and handling

2—Interest on borrowed money, representing purchase price of the cattle

3—All expense incidental to moving to market

4—All the ordinary risks of the business—declining markets, disease, improper handling, etc.

If when the cattle are ready for market, from any or all of the causes mentioned, he has a loss instead of a profit, he is in a precarious position, for his interest, feed and handling expense is going on, his margin is exhausted, and somebody has to take a loss if sold immediately, or if carried along under the expense mentioned, he takes the chance of a much more serious loss later, if the market either declines or fails to advance enough to bring him out. It can thus be seen

in the case of cattle loan companies having a volume of paper at all times outstanding, representing many times the amount of their capitalization, how necessary it is to have a substantial margin of responsibility for their protection behind all the paper which they put out, otherwise they and the purchasers of their paper are simply making a hazardous speculation on the market, which they can neither afford to do. If, through injudicious loans and bad management the loan company should be unable to redeem its obligations and become insolvent, the purchasers of the paper would have the bag to hold. In this connection I am pleased to see that some of the companies in the line of improved methods and good management are requiring their borrowers to furnish signed statements of their holdings and liabilities on the forms furnished and required by the Federal Reserve Banks. By all means I hope to see this practice become general, not only because it will help the sale of the paper in making it eligible for rediscount with the Federal Reserve Banks, in case of need, but for the still more important reason that it is one of the best safeguards that can be thrown around the business. In practically all commercial lines statements are invariably required as a basis of credit, and properly so. The livestock security is perishable and subject to loss or depreciation in value. A borrower who is not willing to make a statement of his affairs in seeking credit in the cattle business is not entitled to any more consideration in this respect than a borrower in any other line of business. Both the original lender and the subsequent purchaser of the paper have a right to know the details of his financial responsibility, and he is not entitled to any more credit than his financial basis warrants.

Under ordinary conditions, feeder loans on steers, if properly made, with ample margin and responsibility, are very much preferred by banks buying cattle paper as an investment, for the reason that the security is shaping up for market and going into consumption, making the paper self-liquidating within a short period of time. Further, such loans as a rule are not subject to the same hazards of disease, blizzards, drouths, etc., as loans on range cattle or stocker loans; but, unless there is ample protection in the margin of the security, and the outside responsibility of the borrower, feeder loans might be anything but desirable and not nearly so safe as loans of the stocker or breeding variety, particularly if the latter are made to substantial farmers owning their own farms and having plenty of feed, water, adequate protection and competent handling.

Prices on stockers, as we all know, are now extremely high. The following opinion of one of the recognized authorities in the cattle loan business is shared by many:

"It is evident to me cattle are being held at too high prices. This refers particularly to cows and calves. In my judgment under the present prices of beef the ordinary calf, six to ten months old, should be sold for delivery at about the time it is a year old at from $20. to $25. per head, whereas the price is now $30. to $35. per head."

Notwithstanding this, however, the margin of security is heavily reinforced by the natural increase. If a cow selling for $50. to $55. will produce a calf selling at from $25. to $35., loans representing a very substantial advance on the value of the cows can be liquidated out of the increase on the average within a period of not longer than eighteen months, so that if

prices suffer a large decline the increase will make a safe margin in the loan.

Stocker loans on range cattle are more subject to hazards of various kinds than those on farms, and the quality usually does not average as high grade, therefore, unless the margin and responsibility are very good, range cattle loans are not preferred. Cattle loan companies in recent years have been taking on more and more loans of this variety—even those which formerly confined their loans to aged steers. This has been a great help to the breeders and a very material aid to increased production. As the natural liquidation of this paper extends over a much longer period than the ordinary bank time on which the loans are sold, it is rather a mooted question how large a proportion of paper of this kind a company can safely put out with its endorsement. It would be very adverse to the interests of all concerned, to force the sale of the security before the natural time of liquidation, to pay the debt.

The cattle loan companies take the view that the market for stockers is about as good and reliable as for anything else, and if the loans are properly made to responsible people, who can respond by the sale of the security, or otherwise, to make their obligations good, in case of necessity, they can liquidate these about as well as the steer loans. It is perhaps true for the time being, due to some of the reasons I have mentioned, that this is the case, but it is not at all certain how long this will continue. However, at the moment this is largely a question of management, bank arrangements and character and quality of the loan; and the principal test of desirability on the part of the purchaser is security, and the assurance it can be liquidated promptly and without loss, irrespective of the

endorsement of the selling company. The old and wise heads in the cattle business, in the light of the experience of the past, are unanimous in desiring that cattle loans as a whole shall be put on the safest possible basis, to insure purchasers from loss, for they well know the great cattle industry requires and deserves strong financial backing, and they do not want to ever again see a repetition of the experiences of fifteen years ago, when a lot of companies, through foolish and injudicious loans, got into trouble, with widespread losses to purchasers of their paper, and giving the business a black eye from which it took a long time to recover.

The purchase of cattle paper in the large Eastern money markets is usually through cattle loan companies or banks, who make the loans and give their endorsements in connection. It is not often practicable to make direct loans, as this would involve too much loss of time, expense and trouble in making investigations, to be practicable or satisfactory. The purchasers naturally prefer some intermediary to make the purchases and look after the security during the life of the loan, and handle it in case of trouble. The desirability of the paper is based on the following considerations:

1—The financial responsibility and the strength of the connections, supporting the institution selling the paper, and the ability, experience and integrity and safe policies of the individuals concerned in its management. The knowledge that they make careful and thorough inspections and look closely after the security throughout the life of the loan.

2—The character and responsibility, financial and moral, of the borrower. In the cattle business, as in

every other, integrity and the moral risk are the first consideration. To quote from Mr. Hollings of the Inter-State National, Kansas City—"The brand on the man is more important than the brand on the cattle."

3—The character of the security, amount of margin, location, arrangements for feed, water and handling; transportation facilities; protection from weather and disease.

4—Liquidity. Loans which will be naturally liquidated within short time by movement of the cattle to market—grown steers in feed lots preferred. Stocker loans are oftentimes very safe and desirable, but this class of paper as a rule is slower in liquidating.

5—Loans on range cattle, calves and young stock are usually subject to more hazards than other loans. All conditions surrounding loans of this character should be looked into very carefully, with regard to safety.

6—The cattle mortgage laws of different states vary very materially in their provisions. They should be studied carefully and thoroughly understood. The original or certified copy of the mortgage should accompany the loan, showing filing and that all legal requirements have been complied with.

7—It is very important all the stock mortgaged should have distinctive brands, and the location clearly designated, recorded in the mortgage, by which the cattle can at any time be immediately identified. The cattle should be in pastures enclosed with fences, and the mortgage should cover all cattle of any certain brand, or be a blanket mortgage covering all cattle of all brands belonging to the borrower. It is very un-

safe to have mortgages held by different lenders on cattle of the same brand, running in the same pastures.

8—Many purchasers will not buy split loans. This is a matter requiring expert judgment and knowledge of conditions, as under some circumstances serious complications may arise.

9—Renewals should be taken with careful attention to the laws of various states and with a full understanding of the circumstances warranting the renewal, and that the security is not being impaired or dissipated.

10—Loans on equities or undivided interests are undesirable.

Observing these tests in the selection, it has been my experience over a long period of time with various institutions, that there is no more desirable paper than cattle paper of the right sort. It can be liquidated in times of panic and tense money markets, affording relief when liquidation in many other lines is tied up. In times of financial crises the packing house and livestock interests are invaluable to the country, and afford quick relief through liquidation, and the bankers of the country should always bear this in mind and extend them all legitimate financial support to which they are entitled.

As to present high prices and the tendency of the markets in the future,—which are necessarily important considerations as a basis of cattle loans—nothing can be said with any great definiteness. The conditions created by the war are so extraordinary it is doubtful if there was ever a time when there were so many different elements bearing on the situation, and when it was so hard to forecast future events. I can see no reason in the immediate future to anticipate violent or

sudden declines. Prices, however, are very high and it is a time to be prudent and to be on the safe side.

A record of the selling values of stray range steers sold by the branding inspector of the Wyoming Stock Growers Association, on the Chicago market, since 1890, for the last twenty-five years indicates a steady advance in the average price of sales, from $26.78 in 1890, to $81.19 in 1914. The greatest advance has been in the last four years. The Government estimates, previously quoted, indicate the following general averages on beef cattle of all kinds:

1867 to 1870 inc.	average	$17.11
1871 to 1880 inc.	"	17.26
1881 to 1890 inc.	"	19.68
1891 to 1900 inc.	"	17.50
1901 to 1910 inc.	"	17.50
1911 to 1915 inc.	"	26.52

It will be seen the general average for the last five years is very much higher than preceding records for the last fifty years. When meat gets too high it tends to automatically reduce consumption. As production in this and other countries increases, it will tend to lower prices. Prices of beef and all commodities tend to rise when money is cheap and plentiful, as at present, declining *vice versa.* Easy conditions of financing prevent a glut of the markets under forced sales. Close money and high rates mean the calling of loans and tend to declining markets.

Under present favorable conditions I look to see considerably increased production in the next few years. When the European war is over the peoples of those countries will be greatly impoverished and forced to economize, and there will probably follow later a long period of reduced consumption abroad. If the

prosperity of our country should hereafter be depressed by these conditions it might mean reduced consumption here at home, as was the case at the outbreak of the war.

Cattle production in the South American countries, particularly the Argentine Republic, has grown to large proportions and will in the future continue to be an element of competition with us in the world's markets.

These facts it seems to me indicate prices are considerably higher now than they may be in the next few years, but the readjustment will probably be more or less gradual, so that with prudence and good management no undue losses need necessarily be made in financing cattle, but serious losses will doubtless be made somewhere along the line by speculators buying at too high prices.

I sincerely hope the members of your great association, individually and collectively, will exert your great influence in the direction of safe and conservative methods, to the end that good cattle paper will be universally sought after as one of the most highly desirable and standard forms of bank investment, and with a view to eliminating to the fullest extent all of the other kind.

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